

**SECTION I – GENERAL COMPLIANCE**  
**CHAPTER 4**

**BUDGET & TRANSFERS**

**The Budget**

Preparation of the budget is one of the most important functions of the board. After approval by the Board of School Estimate in districts in which the Board of School Estimate fixes and determines the tax levy; or the electorate in districts in which the tax levy is voted upon at the annual school election; or by the municipal governing body or bodies where items were rejected by the electorate; or by the Commissioner, it becomes the legal program of expenditures for the school year. The approved budget should be detailed on budget forms prescribed by the Department of Education.

Check the budget detail on the postings of the budget to the revenue ledger and expenditure ledger against the final approved budget used for tax levy purposes in accordance with:

- a. The Board of School Estimate in districts in which that body fixes and determines the tax levy;
- b. The electorate in those districts in which the tax levy is voted upon at the annual school election;
- c. The municipal governing body or bodies where items were rejected by the electorate;
- d. The act of the Commissioner in the event the governing body or bodies of such municipalities fail to certify.

The approved detailed budget must appear in the official minutes as a matter of record.

**Budget Transfers**

Transfers must be made whenever the line item is in danger of going into a deficit condition. A board of education may not approve encumbrances or expenditures that will create deficits in line items. A board of education may transfer amounts necessary to effectuate the approval of encumbrances or expenditures from line item accounts with available appropriation balances. A board of education may by resolution, designate the chief school administrator to approve transfers between meetings of the board. Transfers approved by the chief school administrator shall be reported to the board, ratified, and duly recorded in the minutes at a subsequent meeting of the board but not less than monthly.

The Educational Facilities Construction and Financing Act (EFCFA), effective July 18, 2000, gives districts the ability to transfer to the capital reserve account during the year, not only at budget time or by Commissioner approval. EFCFA (N.J.S.A. 18A:7G-31(c)) states:

"A board of education may, by resolution of the board: transfer undesignated general fund balance or excess undesignated general fund balance to the capital reserve account at any time during the budget year; transfer funds from the capital reserve account to the appropriate line item account for the funding of capital projects as contained in the district's long-range facilities plan; and transfer funds from the capital reserve account to the debt service account for the purpose of offsetting principal and interest payments for bonded projects which are included in the district's long-range facilities plan." Districts cannot transfer audited excess surplus.

N.J.S.A. 18A:22-8.2 prohibits transfers from appropriations or surplus accounts for:

- Interest and debt redemption charges
- Items classified as general fund except to other items so classified, or to the capital projects fund to supplement the proceeds from a bond authorization or lease purchase agreement upon

application to and a formal finding by the commissioner that the transfer is in the best interests of both the students and taxpayers of the district after consideration of alternative corrective actions.

Transfers from appropriations or surplus accounts may be made within the general fund. Adult education fees are limited to adult education program expenditures and may not be transferred elsewhere. Transfers of surplus may be made at any time by board resolution and may be made within the original annual budget that is certified for taxes. Transfers of appropriations may be made by board resolution at any time during the fiscal year. However, districts that presented an additional spending proposal to the voters or board of school estimate are subject to the provisions of N.J.A.C. 6:19-2.4, and districts that included a capital outlay spending growth limitation adjustment are subject to the provisions of N.J.A.C. 6:19-2.7(a).

No transfers should be made from the general fund to the special revenue fund for expenditures in excess of the grant budget. In this instance, the Board's contribution to the program should be coded to the applicable general fund expenditure account, with the exception of benefits.

When specifically approved by the voters or board of school estimate or the Commissioner, districts may transfer surplus from the general fund to the capital projects fund. Such transfers should be shown in the CAFR as an operating transfer with the appropriate disclosure made in the notes to the financial statements. When reporting on the audsum diskette, the restated balances after the transfer should be reported as the July 1 balances. Unexpended bond proceeds that are on hand one year or longer, for which there is no new purpose for the unexpended funds, may be transferred to either the general fund or the debt service fund by board resolution. See related discussion on Bond Sales and Capital Projects Fund in Section II – Fund 30.

In situations where a district charges for meals or receives state or federal meal subsidies, the activity of its food service operations must be accounted for in an enterprise fund. Districts have been provided accounting guidance in Chapter 14 of the GAAP Technical Systems Manual. All costs related to the program must be shown in the enterprise fund. Any board contribution, including the payment of certain salaries or other identified specific expenditures should be budgeted and expended as a transfer to cover deficit in account 11-000-310-930. A separate line has been provided in the audsum diskette for this account. For CAFR presentation, the budgeted and actual transfer should be presented as a general fund operating transfer.

#### **GASB 34 Model - Presentation of interfund balances and transfers**

District wide statements (accrual basis)

GASB 34, paragraph 58 requires eliminations of interfund receivables and payables in the *Statement of Net Assets* except for the net residual amounts due between governmental and business-type activities, which should be presented as internal balances. Amounts reported in the funds as receivable from or payable to fiduciary funds should be included in the *Statement of Net Assets* as receivable from and payable to external parties rather than as internal balances. Paragraph 59 requires eliminations in the *Statement of Activities* to remove the “doubling-up” effect of internal service fund activity.

Funds statements (modified accrual basis)

For governmental funds, interfund transfers should be reported as other financing uses in the funds making the transfers and as other financing sources in the funds receiving transfers. In proprietary funds, revenues from transfers should be reported separately after nonoperating revenues and expenses.

Notes disclosures

GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, paragraphs 14 and 15 require specific disclosures on interfund balances and transfers.

“Governments should disclose in the notes to the financial statements the following details about interfund balances reported in the fund financial statements:

- a. Amounts due from other funds by individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type
- b. The purpose for interfund balances
- c. Interfund balances that are not expected to be repaid within one year from the date of the financial statements

Governments should disclose in the notes to the financial statements the following details about interfund transfers reported in the fund financial statements:

- a. Amounts transferred from other funds by individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type
- b. A general description of the principal purposes of the government’s interfund transfers
- c. The intended purpose and the amount of significant transfers that meet either or both of the following criteria:
  1. Do not occur on a routine basis – for example, a transfer to a wastewater enterprise fund for the local match of a federal pollution control grant
  2. Are inconsistent with the activities of the fund making the transfer – for example, a transfer from a capital projects fund to the general fund.”

Phase 1 and Phase 2 governments should implement the above paragraphs of GASB 38 for fiscal periods beginning after June 15, 2002. Earlier application is encouraged if GASB 34 has also been implemented.